HOA HOMEFRONT

CONTRACT KEY IN MANAGEMENT FIRM HIRING

BY KELLY G. RICHARDSON

Previous HOA Homefront columns discussed choices in association management. If the association decides to hire a management firm to provide service, the management contract should be an important point of focus for the board.

Price is not everything:

Hiring a management firm solely on price is a mistake. Associations may discover "you get what you pay for." Factors affecting the fee are:

1) Level of service desired.

2) Workload, or number of accounts the manager handles.

3) Quality of personnel — more highly qualified managers command higher salaries.

4) What is included or excluded — check for extra charges and fees before signing the contract.

Look beyond the bare fee quoted, and make sure the management fee matches the level of service the association desires.

Reviewing the contract

Before the contract is signed, legal counsel should review it, but if not, consider the following key concerns. Space does not permit a complete list of all such items, but here are some to consider.

Workload

How many other associations is the manager simultaneously handling, and how large are they? Fifteen accounts may be fine or two may be too many, depending upon the nature of the other accounts and the level of service desired.

Vendor tie-ins

Does the company require, or simply offer, additional services at a fee? Does it have affiliated vendors to which it refers ordinary non-management work such as maintenance or repairs? While such services are convenient, the association should have a choice, because such services might be obtained elsewhere at less cost. Management firms must under Civil Code 5375 make certain disclosures upfront. Did they?

Contract length

The contract often will specify a specific term. Starting to manage an association involves much start-up work, and it could be months before the company begins to realize any profit. A minimum term up to 12 months is fair, accompanied by a cancellation right or a reasonable buyout fee. Without a specified buyout or termination right, automatically annually renewing contracts help the company and not the association. However, general managers need some job security, so those contracts will often have a guaranteed term.

Check the extra fees

Too many management companies compete solely on price, as opposed to service, qualifications and reputation, and too often the focus is only on the base fee. One way companies can offset a lower base management fee is to have many extra charges. Check those charges, including document or transfer fees and homeowner charges for services.

Funds handling

Management companies often propose association funds be deposited in the company bank trust account and the manager signs association checks. This is more convenient, but the better choice is to require that the account be the association's and not permit management to sign checks.

Fidelity insurance

The association is required by Civil Code 5806 to carry fidelity (dishonesty) insurance and so should the management company. Make sure the association's coverage includes the management, and is at least in the minimum amount specified by Civil 5806. Check with the association's insurance broker to make sure the fidelity insurance meets the statute and is sufficient to protect the association.

Find a good manager, carefully review the contract, and request reasonable changes. Start a strong manager-association relationship — and keep it for a while!

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